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RUEHBJ/AMEMBASSY BEIJING 2030
RUEHKA/AMEMBASSY DHAKA 4980
RUEHNE/AMEMBASSY NEW DELHI 4997
RUEHUL/AMEMBASSY SEOUL 8590
RUEHKO/AMEMBASSY TOKYO 6159
RUEHCN/AMCONSUL CHENGDU 1574
RUEHCHI/AMCONSUL CHIANG MAI 1827
RUEHCI/AMCONSUL KOLKATA 0425
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C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000721

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SUBJECT: HOW EU SANCTIONS AFFECT BURMA'S TIMBER INDUSTRY

REF: A. RANGOON 706

[1](#)B. RANGOON 699

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d)

Summary

[1](#)1. (C) The European Union in November 2007 imposed sanctions on Burmese timber imports to reduce the regime's revenues from timber sales. While trade figures show that 2008 sales to Europe have dropped dramatically, an increase in Burmese timber trade to Asian countries has far outpaced this decline. The transshipment of timber to Europe via third countries like Singapore and China has also increased during this period. EU sanctions have had no apparent effect on the sales of major domestic producers, such as Myanmar Timber Enterprise (MTE) or large Burmese companies, but small- and medium-sized companies that cater to the European market are feeling the pinch and may be forced to close. End Summary.

Exports Still Going Strong

[1](#)2. (C) The European Union in November 2007 banned the direct and indirect import of Burmese timber and timber products. Nevertheless, trade statistics indicate these sanctions have had little affect on Burma's overall timber exports in 2008. Industry insiders predict this year's timber exports will exceed 2007 levels of USD 572 million (Ref A). In 2007, European countries purchased more than USD 30 million in Burmese timber, roughly 11 percent of Burma's overall timber exports. Europe imports very few hardwood

logs which are the majority of Burma's timber exports, U Win Aung of United International (one of Burma's larger timber companies) explained. He said that because most of Burma's timber goes to India, Thailand, and China and these exports would increase substantially in 2008, the impact of the loss of European sales would be negligible.

----- Burma Timber Trade to European Countries* In US Dollars -----			
Country	2006	2007	2008
Austria	53,097	616,791	----
Belgium	971,179	1,076,701	7,691
Cyprus	76,506	210,044	----
Denmark	1,047,224	1,294,667	66,092
Finland	131,928	145,254	52,660
France	1,565,580	1,944,986	63,515
Germany	2,874,890	3,969,439	302,436
Greece	1,259,055	1,398,817	----
Italy	10,698,248	14,375,179	2,503,317
Netherlands	1,338,462	2,260,395	138,091
Norway	9,394	37,206	----
Spain	304,910	272,650	----
Sweden	769,467	1,377,763	201,674
Switzerland	20,315	----	----
UK	2,623,876	645,177	112,340
Total	23,745,131	30,673,384	3,420,816

Source: Business Investment Group, August 2008

*Through June 2008

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13. (C) According to private Burmese consultant Business Investment Group, Burma exported approximately USD 3.4 million in timber products to Europe through June 2008, only 1 percent of overall timber exports. U Win Aung attributed this marked decrease to EU sanctions, noting that his sales to Europe, which totaled approximately USD 100,000 in 2007 (about five percent of his total sales) are now virtually non-existent. Several smaller companies also complained to us about the loss of the European market, which had been expanding until the EU imposed sanctions.

14. (C) Europe continues to demand Burmese timber, and despite EU sanctions, companies are still able to make purchases because EU sanctions are not enforced across the board, Win Aung stated. As the legal import of Burmese timber becomes increasingly difficult, more and more companies will buy timber through third parties, he predicted. Although the EU sanctions technically ban third party transshipment of Burmese timber, companies in Singapore and China have already begun to re-label the wood, eliminating any reference to Burma, Kyaw Nandar of Htoo Trading told us. EU customs officials are unable to distinguish Burmese timber from that of other countries, making enforcement difficult, he added. Therefore, official timber export figures do not accurately reflect how much Burmese timber is actually entering the European market, U Win Aung concluded.

Small Companies Hurt

15. (C) EU sanctions have directly impacted the operations of many small foreign and Burmese timber companies. Many of these companies are unregistered, and thus the total number of timber companies in Burma is unknown. Jamie Humphries, owner of Burma Chindits, a local company that makes handicrafts from reclaimed teak for the European market, lamented that his 2008 sales have dropped by 70 percent, forcing him to lay off half of his staff. The goal of sanctions is to limit the revenues earned by the regime;

however, not all timber companies, such as those which purchase reclaimed teak from construction companies, do business with MTE, he pointed out.

16. (C) Francesco Laperni, General Manager of Briantea and Eurasian SA, a Swiss company that operates several MTE saw mills and exports hardwood flooring to Europe through local companies, told us he is considering closing shop by December. In 2007, 95 percent of his sales went to Europe, particularly the UK, Germany, and Italy; since the EU imposed sanctions, his sales have dropped by 70 percent. Laperni confirmed that European demand for teak remains high and acknowledged that his company engages in "under the table" dealings to export to Europe. However, transshipping through Singapore is complicated and not worth the effort, he complained. When his company closes, approximately 500 people will lose their jobs, he estimated.

17. (C) Large Burmese timber companies, such as Win Aung's Dagon Timber and Tay Za's Htoo Trading, have not been affected by EU sanctions. Kyaw Nandar of Htoo Trading predicted that the company's 2008 timber sales will exceed last year's. These companies, which primarily export cut logs through MTE, do little business with Europe. Kyaw Nandar confirmed that large companies have shifted their sales to China, India, and Thailand, more than compensating

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for the loss of any European sales.

Comment

18. (C) While EU sanctions seek to limit the regime's revenue from timber sales, the rise in exports to other markets has undermined their effectiveness. MTE and Burmese companies may be losing European business but can easily sell their timber to other Asian countries for the same price. While the market destination may change, experts predict that 2008 timber revenues will be the highest ever, upwards of USD 600 million. Instead of hurting the regime, the EU timber sanctions appear to be affecting small private companies, both Burmese and foreign. In the absence of broader sanctions against Burmese timber - to include participation by countries like China and India - the effect of these sanctions will be limited.

DINGER